CITY OF KIRKLAND
Planning and Building Department
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Angela Ruggeri, AICP, Senior Planner
Eric R. Shields, AICP, Planning Director

Date: September 7, 2017

Subject: RESIDENTIAL SUITES IN HOUGHTON EVEREST NEIGHBORHOOD CENTER

I. RECOMMENDATION

Determine if staff should continue the study of residential suites in the Houghton/Everest Neighborhood Center 2 (HENC 2) Zone, which would require an additional public hearing.

II. BACKGROUND

The recommendations from the Planning Commission and Houghton Community Council on the Houghton/Everest Neighborhood Center Plan amendments were presented to the City Council at its study session on June 6, 2017. Additional information was brought to the City Council at its regular meetings on July 5th and July 18th.

The Council asked staff to study residential suites in the HENC 2 zone. This zone includes two properties, the Waddell property on the north and the City owned, Houghton Court Apartments on the south.

The following information was presented to the Council at its July 18, 2017 meeting.

Residential Suites

A. Zoning Code definition of "Residential Suites":

A structure containing single room living units with a minimum floor area of 120 square feet and maximum floor area of 350 square feet offered on a monthly basis or longer where residents share bathroom and/or kitchen facilities....
For purposes of zones where minimum density or affordable housing is required, each living unit shall equate to one (1) dwelling unit.

NOTE: There is no incentive to build residential suites in zones where there is a density limit since they are counted as one dwelling unit per the above definition.

B. The following requirements are included for residential suites in the CBD zones where Residential Suites are allowed.

- Parking requirement is 0.5 stalls/unit plus one/on site employee, if a parking management plan is approved by the City, implemented by the property owner and recorded with King County;
- Otherwise the parking requirement is one stall/unit plus one stall/on site employee;
- Development shall be LEED gold or equal standard; and
- A common living area must be provided for residents.

C. Residential Suite Trip Generation Comparison

- Average residential suite PM peak hour vehicle trip generation rate – 0.127 trips/residential suite unit.
- Average multifamily PM peak hour vehicle trip generation rate – 0.58 trips/dwelling unit.

Approximately 4.5 residential suites generate the same number of PM peak hour vehicle trips as one average multifamily unit.

D. Square Footage - Residential Suites Compared to Traditional Units

The following is a comparison of the average square footage for residential suites and multifamily units at the Arete development in downtown Kirkland. This comparison includes square footage for shared areas such as hallways and community areas used for kitchen facilities and entertainment.

- Average square footage needed for a residential suite unit including common space: 275 square feet.
- Average square footage needed for a multifamily unit including common space: 781 square feet.

Including common areas, approximately 2.8 residential suite units at Arete occupy the same square footage as one multifamily unit.

E. The comparisons of vehicle trip generation and square footage requirements shown in C and D above indicate that residential suite developments generate less PM peak hour vehicle trips than multifamily developments with the same square footage.

II. ADDITIONAL INFORMATION SINCE LAST COUNCIL DISCUSSION

A. Staff has done more research on residential suites and has talked to Robert Pantley, the owner and developer of Arete, a residential suite development in downtown Kirkland. Mr. Pantley has informed staff in those conversations and confirmed via email that without five stories, residential suites won't be viable for the HENC 2 zone (see Attachment 1).

B. City Property (Houghton Court Apartments)
As first introduced at the June 13, 2017, Council policy retreat, the City is considering a property exchange with King County Housing Authority. Exploring this option was authorized by the Council at the retreat, but no final decisions have been made about whether to proceed with the exchange. Under this scenario, the Houghton Court Apartments would be exchanged for the KCHA property where the City Park Maintenance Center is located. An excerpt from the June 13 retreat staff report regarding Maintenance Center expansion and potential swap is included below in italics. Ortho photos of the KCHA site, the Perrin Building and their proximity to the current City-owned Maintenance Center are included as Attachments 2 and 3.

King County Housing Authority Property and HUD Deed of Trust

Since the fall of 2016, the City of Kirkland has been having parallel discussions with the King County Housing Authority regarding the KCHA-owned property that is leased for Parks Maintenance. The primary path was a straightforward purchase of the property by Kirkland. After exchanging appraisals and value estimations, KCHA established a purchase price of $1.9 million in August of 2016 and expressed a willingness to continue leasing the property to Kirkland, or to sell the property outright.

As it became clearer that the KCHA purchase and Perrin Building lease was likely to be the recommendation of staff to the City Council for maintenance center needs, KCHA evaluated the necessary elements of a potential sale this spring. In the past month, KCHA identified a challenge to the sale with the federal Department of Housing and Urban Development (HUD). The property was purchased using HUD funds and includes a HUD Deed of Trust on the property. HUD has told KCHA that if the property is sold, KCHA will need to repay HUD the original million dollars used to purchase the property. Because of this restriction, KCHA has recently concluded it cannot afford to sell the property to Kirkland, but KCHA is still willing to continue leasing the property to the City.

Potential Property Exchange for Houghton Court

At the same time, the City Manager and the KCHA Executive Director have been having discussions about the potential for KCHA to take over responsibility for the City-owned properties at Houghton

Court as one possible option if the City Council chose to retain Houghton Court rather than sell the properties back to the market. The discussions were conceptual in nature and both parties acknowledged that any formal negotiations would only occur after the Council made final decisions regarding the Houghton/Everest Business District zoning and had a policy discussion about the future of the Houghton Court properties.

The Houghton Court properties include 15 units in two apartment buildings. The properties total approximately one acre and are zoned at 12 units per acre. They were purchased in 2015 using an interfund loan that must be paid off, with interest, within three years for a total of $4.73 million. The purchase price was based on the land's most profitable use, which is currently as up to 11 single family lots. The deadline for loan repayment is April of 2018. The primary purpose of the purchase was to secure the land in order to build a pedestrian bridge and connection between the Cross Kirkland Corridor (CKC) and the Houghton Shopping Center as called for in the CKC Master Plan. The City has successfully constructed the bridge, established the connection to the shopping center and will ensure a permanent easement to the CKC is included in any future use of the properties. At the time of the purchase, the final disposition of the properties was not decided by the Council, but potential options discussed at the time were to retain it for affordable housing, sell it back to the market, or reserve it in some way for transit on the Cross Kirkland Corridor as part of the ST3 package. ST3 was approved by the voters in November of 2016 with no implementation of transit on the CKC, but the measure did include a study of future high capacity transit options on the CKC and on I-405.

At the Houghton/Everest Business District Study Session of June 6, 2017, the Council was informed that both the Planning Commission and the Houghton Community Council have recommended that the City retain the Houghton Court properties for affordable housing as part of the overall Comprehensive Plan and zoning proposals.

KCHA has evaluated the properties and identified significant rehabilitation needs. KCHA estimates that as much as $1.5 million must be invested in the properties to bring them up to KCHA standards. Neither the KCHA, nor any other non-profit that provides affordable housing, can afford to pay anything near the purchase price to Kirkland which is necessary to retire the interfund loan. Therefore, if Kirkland wishes to retain these properties as affordable housing, the City will need to create innovative partnerships, piece together funding, and most likely subsidize the project significantly.

While still proceeding on the concept of the purchase by Parks, the City Manager and the Executive Director also began discussing the idea of exchanging ownership of the properties. The KCHA has offered several potential commitments to Kirkland as consideration to the City in return for trading ownership given the significant differences in market value of the properties.

In addition to transferring the Parks Maintenance site to the City, KCHA would fund the $1.5 million in upgrades at Houghton Court, dealing with immediate repair needs, assuring long term viability and significantly upgrading the appearance of the site and buildings to match the neighborhood. Examples of what KCHA properties look like can be seen at Kirkland Place (419-421 Seventh Ave) and Kirkwood Terrace (11925 N.E. 81st Circle).

KCHA would also commit federal rental subsidies to assure that these units would be available to a spectrum of lower income ranges. KCHA would also coordinate with the Lake Washington School District to facilitate admission of families with homeless school children to vacant units when available. As the Council is aware, the District identified 353 homeless students last school year.

Once KCHA identified the challenge with the HUD Deed of Trust on selling its property, it explored whether the Deed of Trust could be transferred to the Houghton Court properties without a financial penalty. While there is still more work to do on this issue, KCHA believes that Deed transfer may be possible.

At the June 13 retreat, the Council concurred with the staff recommendation that utilizing the current Parks Maintenance Center property at 1129 8th Street in conjunction with the Perrin Building appears to be the most cost effective way to accommodate the expanded needs of the Parks Department. Staff have been moving forward with the Perrin Building lease negotiations.

The Council also authorized staff to explore the potential property swap. Several meetings have occurred between the KCHA and staff from ARCH and the City to identify the steps necessary to accomplish the swap. During those discussions both ARCH and the KCHA were asked if demolishing the existing buildings and building new housing would create more affordable housing. Both KCHA staff and ARCH staff have concluded that without additional height and density, preserving the existing units is the most cost-effective way to provide affordable housing at that location.

Therefore, under the current exchange being evaluated, if the King County Housing Authority does acquire the City property through a swap, the existing units will be updated and continue to be rented as affordable housing.

C. At the last public hearing, there was overwhelming testimony given that heights over 3 stories should not be allowed. In response, the Planning Commission and Houghton Community Council have both recommended a maximum 30' (3 story) limit for the HENC 2 zone.

D. It will be necessary to hold another public hearing in order to consider residential suites in HENC 2. The last public hearing for the HENC area did not include the Residential suite option.

III. Discussion and Direction

With the updated information now available, staff requests that the Council consider whether to continue to evaluate the economic viability of Residential suites in HENC 2 zone based on the following factors:

A. The 3 story limit that is supported by the citizens, the Planning Commission and the Houghton Community Council prevents residential suites from being a reasonable development option.

B. The Planning Commission, Houghton Community Council and the City Council have all expressed the desire to maintain affordable housing on the City property. That can occur if the King County Housing Authority takes control of the property. The Housing Authority has indicated that they will keep the existing units and remodel them unless

there are significant changes to density on the property.

C. Another public hearing would be necessary to move forward with the residential suites option, and 5 story height limits would be required. The City has already heard from citizens that they are strongly against increased height. Adding residential suites as a permitted use, requiring five stories to be viable, would likely be perceived by citizens as a means to allow additional height for other uses.

D. The additional time needed for the public hearing and to gather information requested by the Central Houghton Neighborhood Association may delay this project even further.

Staff will be seeking final direction at the September 19, 2017, Council meeting as to whether to schedule a public hearing on Residential suites. If the Council wishes to proceed, the public hearing would likely occur near the end of October.

Attachment 1 - E-mail from Robert Pantley dated August 29, 2017
Attachment 2 - Ortho photo of the King County Housing Authority property and the Perring Building
Attachment 3 – Ortho photo of the existing City-owned Maintenance Center

From: Robert Pantley [mailto:robert@pantley.com]
Sent: Tuesday, August 29, 2017 12:35 PM
To: Eric Shields
Cc: Angela Rozmyn
Subject: Re: Request for brief email

Hi Eric

Here is why we believe that Residential Suites cannot be built with 3 stories.

Fixed development costs generally occur regardless of height, be it 3, 4 or 5 stories. The land price, sidewalks, curbs, utility connections, the roof, and many other land development costs are the same for whatever size building is put on the site. The two stories lost reducing from 5 to 3 stories does not shrink these costs.

In this hot market, everything costs more. Land values are up, the demand for single family and town homes continue to push land costs up directly affecting these properties. Also, construction costs are up, fees are up, and more equity is required by banks under the new federal laws put in place last year. Residential suites are low income producing units to begin with and they have added costs of common areas, additional exterior wall and window surfaces. Unless we see a distinct change economically i.e. higher rents or significantly lower costs, residential suites will be extremely hard to build even at 5 stories. At three stories, the numbers just simply do not work because the per square foot of rentable area is insufficient for a reasonable level of construction and long term funding.

We are our own builder and look at holding our communities for the long term, which makes the numbers possible for 5 story residential suite construction. That, along with our deep passion for LEED Platinum affordable units, makes us an anomaly in the marketplace. While all others build non LEED luxury apartments, we stay with our LEED Platinum residential suites. Our numbers are based on a very long term horizon, which looks considerably different than the developers who build to sell.

We think that the Waddell and City properties are excellent location for residential suites. It would see lower transportation impacts per square foot than apartments and create badly needed affordable housing in an area with lots of walkability to Google, Tableau, Wave, and all the support jobs that go along with the tech industry. The 255, one of the top bus lines on the Eastside, goes right past the site and straight to our downtown, Totem Lake, and downtown Seattle. At 3 or even 4 stories, we wouldn't look at buying a property in the Houghton/Everest business district because of the high land value created by single family and townhome demand. At 5 stories, we would look carefully.

Thank you.

Warm Regards,

Robert Pantley
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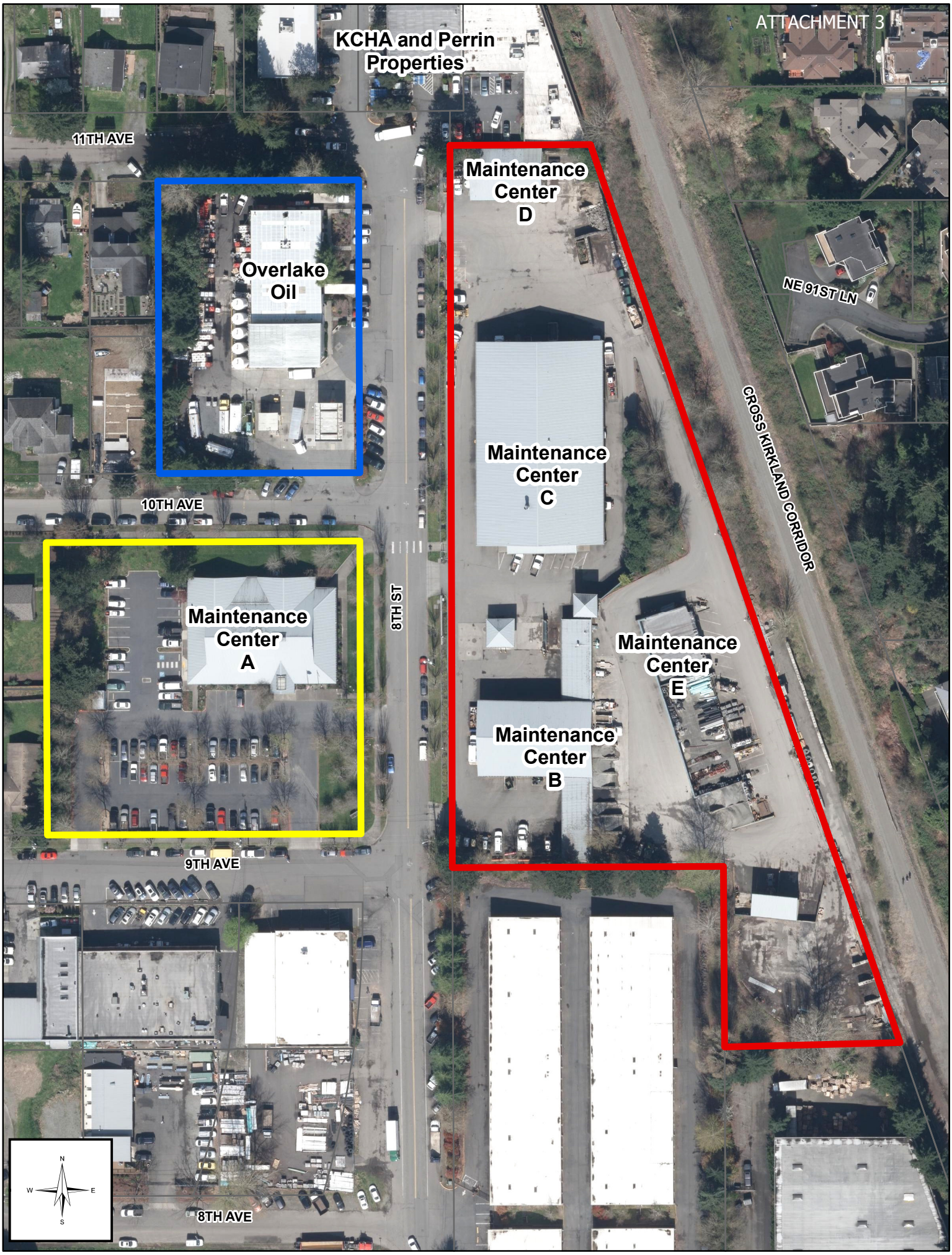
ATTACHMENT 2


ATTACHMENT 3
KCHA and Perrin Properties
11TH AVE
Overlake Oil
Maintenance Center D
NE 91ST LN
Maintenance Center C
CROSS KIRKLAND CORRIDOR
10TH AVE
8TH ST
Maintenance Center A
Maintenance Center E
Maintenance Center B
9TH AVE
8TH AVE
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